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TEXAS

Annual Financial Report

Cash Basis - For The Year Ended August 31, 1988

Bob Bullock
Texas Comptroller of Public Accounts

November 7, 1988

The Honorable William P. Clements
Governor of Texas
The State Capitol
Austin, Texas 78767

Dear Governor Clements:

Bolstered by an improving economy, state government finances recovered during the fiscal year ended August 31, 1988.

The state's General Revenue Fund finished the year with a cash balance of $113 million — a substantial recovery from fiscal 1987 which closed on a cash deficit of $745 million.

A cash balance of $2.7 billion remained in all funds at the close of the fiscal year compared to $1.7 billion on August 31, 1987. Total net revenue of $22.7 billion supported total net expenditures of $20.3 billion for the fiscal year.

Tax receipts showed a marked improvement — rising 20.4 percent to $12.4 billion from $10.3 billion in fiscal 1987.

This report details State of Texas revenues and expenditures for fiscal 1988, as required by TEX. REV. CIV. STAT. ANN. art. 4348 (Vernon Supp. 1988); and TEX. GOV'T CODE ANN. SEC. 403.013 (Vernon 1988).

Sincerely,

BOB BULLOCK
Comptroller of Public Accounts

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Introduction

The ***1988 Annual Financial Report of the State of Texas*** reviews the state's financial condition and details revenue and expenditure transactions for which the Comptroller of Public Accounts has accounting responsibility.

This report is presented on a strict cash basis, not on an accrual or modified accrual basis. The ***1988 Annual Financial Report GAAP Edition*** will present the state's financial condition on a modified accrual basis.

The report is presented in two volumes. Volume I summarizes the state's financial condition, revenue, expenditures and cash balances. Volume II, ***Revenue and Expenditures of State Funds,*** presents a more detailed picture of state revenue and spending as well as the transactions of each state fund.

Revenue and Expenditures

As the books closed on fiscal 1988, Texas again has shown the ability to create economic opportunity out of economic adversity.

The state finished fiscal 1988 with a General Revenue Fund cash balance of $113 million — state government was in the black for the first time in two years.

Texas opened fiscal 1988 on September 1, 1987, with the Texas economy in a slow and steady rebound but with a cash deficit of $745 million in the state's General Revenue Fund.[1]

Moving toward a new, more diversified economy, Texas found firm footing on the first tentative steps toward recovery and improved throughout the year — resulting in higher state revenues.

State Revenue

A steadily improving state economy, higher tax rates and a broadened sales tax base boosted Texas' net revenue from all funds to $22.7 billion for fiscal 1988. Revenue to Funds 1-899, which exclude trust and suspense funds, added up to $20.4 billion for the year ending August 31, 1988 — 14.4 percent more than fiscal 1987.

Tax Collections

(Tables 1 - 5)

Tax collections are the largest source of revenue for the State of Texas. Revenue from all of the state's taxes combined increased substantially to $12.4 billion in fiscal 1988 from $10.3 billion in fiscal 1987.

Texas' sales tax, which accounts for more revenue than any other state tax, brought in $6.2 billion in fiscal 1988, 35.2 percent more than the $4.6 billion collected in fiscal 1987. The sales tax brought in more than half of the tax revenue raised by Texas in fiscal 1988 — 50.5 percent compared to 45.0 percent in fiscal 1987.

Most of the increase in sales tax collections was due to a jump in the sales tax rate and a broadening of the sales tax base passed by the 1987 Legislature. The sales tax rate rose to 6.0 percent from 5.25 percent as of October 1, 1987. In addition, the sales tax was expanded to cover a variety of previously untaxed services.

Motor fuels taxes added $1.5 billion to state revenue in fiscal 1988 — a 15.8 percent increase over fiscal 1987 collections. Motor fuels taxes on gasoline, diesel and liquid petroleum gas (LPG) are the second-largest source of tax revenue in Texas, accounting for 11.9 percent of tax collections. The tax rate on motor fuels remained at 15¢ per gallon.

Motor vehicle sales and rental taxes totaled $947.1 million in fiscal 1988, increasing 18 percent from fiscal 1987. These taxes, levied on car sales and rentals and interstate motor carriers, accounted for 7.7 percent of fiscal 1988 tax collections.

Much of the increase in motor vehicle sales and rental tax revenue was due to higher tax rates for fiscal 1988. The Legislature raised the motor vehicle sales tax from 5.0 percent to 6.0 percent effective September 1, 1987. Motor vehicle rental and interstate motor carrier taxes increased to 6.0 percent as of October 1, 1987.

Franchise tax collections added $932.6 million to state revenue for the fiscal year ended August 31. This marked a 6.7 percent increase over fiscal 1987 franchise tax revenue. The franchise tax accounts for 7.5 percent of Texas tax revenue.

The state's franchise tax, paid by corporations for the privilege of doing business in Texas, also was increased by lawmakers in 1987. The increase, effective January 1, 1988, raised the

[1] The *1988 Annual Financial Report for the State of Texas* is compiled on a strict cash basis. Totals may not agree with those based on an accrual or modified accrual accounting system which conforms to Generally Accepted Accounting Principles.

TABLE 1
NET REVENUE BY SOURCE AND OPENING CASH BALANCES
FUNDS 1-899
Year Ended August 31

	1984	1985	1986	1987	1988
Tax Collections by Major Tax					
Sales Tax	$ 3,784,764,540	$ 4,191,844,449	$ 4,329,870,862	$ 4,616,532,669	$ 6,242,907,173
Oil Production Tax	1,120,162,035	1,040,170,630	769,222,794	533,189,754	499,916,353
Natural Gas Production Tax	1,095,485,322	1,122,847,619	778,703,230	644,861,860	555,646,858
Motor Fuels Taxes (Gasoline, Diesel, LPG)	531,730,154	986,869,546	1,011,478,723	1,273,135,834	1,473,820,820
Motor Vehicle Sales and Rental Taxes	717,523,433	894,991,465	865,963,093	802,836,848	947,092,697
Franchise Tax	606,792,949	855,546,979	901,046,009	873,796,811	932,586,518
Cigarette and Tobacco Taxes	340,271,451	373,721,605	378,715,314	370,842,764	416,998,640
Alcoholic Beverages Taxes	284,803,671	332,887,462	348,022,634	325,506,870	315,534,531
Insurance Companies Taxes	362,459,870	367,757,114	408,886,583	423,256,676	546,763,628
Utility Taxes	210,972,850	210,219,808	197,683,548	185,870,560	185,335,858
Inheritance Tax	97,543,483	147,690,405	119,457,147	113,741,731	108,409,710
Telephone Tax	84,756,554	110,648,410	36,613,409	24,441,738	22,499,868
Hotel and Motel Tax	44,899,926	60,940,910	65,030,260	62,677,809	90,101,053
Other Taxes	23,673,254	25,071,860	20,976,605	15,470,857	27,005,218
TOTAL TAX COLLECTIONS	9,305,839,492	10,721,208,262	10,231,670,211	10,266,162,781	12,364,618,925
Revenue by Source					
Tax Collections	9,305,839,492	10,721,208,262	10,231,670,211	10,266,162,781	12,364,618,925
Federal Funding	3,114,983,206	3,469,875,012	4,109,472,582	4,078,102,385	4,515,128,558
Interest Income	862,940,478	1,001,240,348	1,104,704,403	1,083,595,979	1,169,005,780
Licenses and Fees	648,054,472	848,181,900	1,136,281,778	1,233,139,104	1,384,109,398
Land Income: Rents, Royalties, Sales	589,787,891	555,886,790	855,704,880	281,336,789	288,598,949
Other Revenue Sources	400,343,841	568,658,821	960,723,046	898,428,929	685,490,813
TOTAL NET REVENUE	$ 14,921,949,380	$ 17,165,051,133	$ 18,398,556,900	$ 17,840,765,967	$ 20,406,952,423
Receipts to Petty Cash Accounts	323,672	292,960	1,930,496	463,034	569,729
Opening Net Cash Balances, September 1					
State Treasury	2,222,035,704	2,048,614,861	2,071,074,028	1,860,283,729	935,176,923
Petty Cash Funds	3,275,282	3,564,248	3,790,551	5,387,828	5,743,034
Total, Opening Net Cash Balances September 1	2,225,310,986	2,052,179,109	2,074,864,579	1,865,671,557	940,919,957
TOTAL NET REVENUE AND OPENING CASH BALANCES	$ 17,147,584,038	$ 19,217,523,202	$ 20,475,351,975	$ 19,706,900,558	$ 21,348,442,109

rate from $5.25 to $6.70 for each $1,000 of a corporation's taxable capital in Texas. The minimum tax also increased from $68 to $150 per year. These increases are scheduled to expire in January 1990.

Cigarette and tobacco taxes added $417.0 million to the state coffers in fiscal 1988. Cigarette and tobacco tax revenue increased 12.4 percent from last fiscal year, accounting for 3.4 percent of state tax collections. The Legislature increased the rate on some items that fall under this tax effective October 1, 1987.

Texas' hotel and motel tax earned $90.1 million for the state in fiscal 1988 — a 43.8 percent increase from fiscal 1987 revenue.

Travelers paid a higher tax rate when staying in hotels and motels in Texas in fiscal 1988 since the Legislature also increased the hotel and motel tax rate from 4.0 percent to 6.0 percent as of September 1, 1987. A portion of this revenue funds the tourism advertising budget of the Texas Department of Commerce, created by the Legislature in 1987.

Oil production tax revenue continued to dwindle as a share of state tax revenue, bringing in $499.9 million — 6.2 percent less than fiscal 1987. The price of Texas oil averaged $16.63 per barrel over the past year, an improvement over fiscal 1987's average price of $15.54. Due to declining production, the oil production tax lost

TABLE 2
PERCENTAGE OF NET REVENUE BY SOURCE
FUNDS 1-899

	Percentage of Total				
	1984	1985	1986	1987	1988
Tax Collections by Major Tax					
Sales Tax	40.7 %	39.1 %	42.3 %	45.0 %	50.5 %
Oil Production Tax	12.0	9.7	7.5	5.2	4.0
Natural Gas Production Tax	11.8	10.5	7.6	6.3	4.5
Motor Fuels Taxes (Gasoline, Diesel, LPG)	5.7	9.2	9.9	12.4	11.9
Motor Vehicle Sales and Rental Taxes	7.7	8.3	8.5	7.8	7.7
Franchise Tax	6.5	8.0	8.8	8.5	7.5
Cigarette and Tobacco Taxes	3.7	3.5	3.7	3.6	3.4
Alcoholic Beverages Taxes	3.1	3.1	3.4	3.2	2.6
Insurance Companies Taxes	3.9	3.4	4.0	4.1	4.4
Utility Taxes	2.3	2.0	1.9	1.8	1.5
Inheritance Tax	1.0	1.4	1.2	1.1	0.9
Telephone Tax	0.9	1.0	0.4	0.2	0.2
Hotel and Motel Tax	0.5	0.6	0.6	0.6	0.7
Other Taxes	0.2	0.2	0.2	0.2	0.2
TOTAL TAX COLLECTIONS	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %
Revenue by Source					
Tax Collections	62.4	62.5	55.6	57.5	60.6
Federal Funding	20.9	20.2	22.3	22.9	22.1
Interest Income	5.8	5.8	6.0	6.1	5.7
Licenses and Fees	4.3	5.0	6.2	6.9	6.8
Land Income: Rents, Royalties, Sales	4.0	3.2	4.7	1.6	1.4
Other Revenue Sources	2.6	3.3	5.2	5.0	3.4
TOTAL NET REVENUE	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %

TABLE 3
ANNUAL PERCENTAGE CHANGE IN NET REVENUE BY SOURCE
FUNDS 1-899

	Percentage Change from Prior Year			
	1985	1986	1987	1988
Tax Collections by Major Tax				
Sales Tax	10.8 %	3.3 %	6.6 %	35.2 %
Oil Production Tax	-7.1	-26.0	-30.7	-6.2
Natural Gas Production Tax	2.5	-30.6	-17.2	-13.8
Motor Fuels Taxes (Gasoline, Diesel, LPG)	85.6	2.5	25.9	15.8
Motor Vehicle Sales and Rental Taxes	24.7	-3.2	-7.3	18.0
Franchise Tax	41.0	5.3	-3.0	6.7
Cigarette and Tobacco Taxes	9.8	1.3	-2.1	12.4
Alcoholic Beverages Taxes	16.9	4.5	-6.5	-3.1
Insurance Companies Taxes	1.5	11.2	3.5	29.2
Utility Taxes	-0.4	-6.0	-6.0	-0.3
Inheritance Tax	51.4	-19.1	-4.8	-4.7
Telephone Tax	30.5	-66.9	-33.2	-7.9
Hotel and Motel Tax	35.7	6.7	-3.6	43.8
Other Taxes	5.9	-16.3	-26.2	74.6
TOTAL TAX COLLECTIONS	15.2 %	-4.6 %	0.3 %	20.4 %
Revenue by Source				
Tax Collections	15.2 %	-4.6 %	0.3 %	20.4 %
Federal Funding	11.4	18.4	-0.8	10.7
Interest Income	16.0	10.3	-1.9	7.9
Licenses and Fees	30.9	34.0	8.5	12.2
Land Income: Rents, Royalties, Sales	-5.7	53.9	-67.1	2.6
Other Revenue Sources	42.0	68.9	-6.5	-23.7
TOTAL NET REVENUE	15.0 %	7.2 %	-3.0 %	14.4 %

ground relative to other taxes — accounting for 4.0 percent of total tax collections in fiscal 1988 compared to 5.2 percent in fiscal 1987.

In fiscal 1988, the state gained $555.6 million from the natural gas production tax, a 13.8 percent drop from fiscal 1987. This tax accounts for 4.5 percent of total tax revenue.

Natural gas production tax revenue declined more than any other of the state's taxes in fiscal 1988 due to a reduction in natural gas production. In addition, the fiscal 1988 total includes just 11 months of revenue due to a speed-up in August 1987 collections which occurs every odd-numbered year.

TABLE 4
TAX RATES AND TAXABLE BASES FOR MAJOR TEXAS STATE TAXES *
FISCAL 1988

Description of Tax	Rate and Base
Sales and Use Tax	6.0% of the retail sale price of tangible personal property.
Natural and Casinghead Gas Tax	7.5% of the market value of gas produced in the state.
Oil Production and Regulation Taxes	Production: 4.6% of the market value of oil produced in the state. Regulation: 3/16 of 1¢ on each barrel produced.
Motor Fuels Taxes	Motor Fuels Tax: 15¢ /gallon of gasoline. Special Fuels Taxes: Diesel Fuel - 15¢ /gallon; Liquefied Gas - 15¢ /gallon.
Motor Vehicle Sales and Rental Taxes	Sales: 6% of vehicle sales price, less any trade-in. Rental: 6% of gross rental receipts. Interstate Carriers: A 6% apportioned tax is due on certain motor vehicles, trailers, semitrailers and buses operated on an interstate basis by carriers who are residents of Texas or who are domiciled or doing business in Texas.
Cigarette and Tobacco Products Taxes	Cigarette: $13.00 per 1,000 weighing 3 lbs or less (26¢ per pack of 20); $15.10 per 1,000 weighing more than 3 lbs. Cigar and Tobacco Products: based on weight per 1,000 and selling price: (1) cigars weighing not more than 3 lbs per 1,000 (1¢ for every 10 cigars); (2) cigars weighing more than 3 lbs per 1,000 and retailing for not more than 3.3 ¢ each ($7.50 per 1,000); (3) cigars weighing more than 3 lbs per 1,000 and selling for over 3.3¢ each containing no substantial amounts of nontobacco ingredients ($11.00 per 1,000); (4) cigars weighing more than 3 lbs per 1,000 and selling for over 3.3 ¢ each containing substantial amounts of nontobacco ingredients ($15.00 per 1,000); (5) chewing, snuff, pipe or smoking tobacco (28.125% of the factory list price exclusive of discounts).
Franchise Tax	Domestic and foreign corporations, unless otherwise provided for, pay whichever yields the greater tax: (1) $6.70 per $1,000 of taxable capital and surplus; (2) $150.00.
Alcoholic Beverages Taxes	Beer: $6.00 /barrel. Liquor: $2.40/gallon. Wine: Alcoholic volume not over 14% -- 20.4¢/gallon. More than 14% -- 40.8¢/gallon. Sparkling wine -- 51.6¢/gallon. Malt Liquor (Ale): 19.8¢/gallon. Mixed Drinks Gross Receipts: 12% of gross receipts. Airline Passenger/Train Beverage Tax: 5¢ per serving.

TABLE 4 (Continued)
TAX RATES AND TAXABLE BASES FOR MAJOR TEXAS STATE TAXES *
FISCAL 1988

Insurance Companies Taxes	Life, Health and Accident Insurance Companies Rates: 2.5% of gross premium receipts if the value of Texas investments is less than 90% of similar investment in the comparison state. 1.8% if value is between 90% and 100%. 1.1% if value is greater than 100%. If a carrier collects total gross premiums of less than $450,000, the tax rate is 1/2 the rate determined above. Fire and Casualty Insurance Companies Rate: 3.5% of gross premium receipts if the value of Texas investments is less than 85% of similar investments in the comparison state. 2.4% if value is 85% to 90%. 1.2% if value is greater than 90% Unauthorized Insurance Premium Rate: 3.85% of gross premiums charged. Surplus Lines Insurance Rate: 3.85% of gross premiums charged. (Comparison state is defined as the state — other than Texas — in which an insurance carrier owns the largest amount of investments.)
Inheritance Tax	A tax equal to the amount of the federal credit is imposed on the transfer of property at death.
Utility Taxes	Public Utility Gross Receipts: 1/6 of 1% of gross receipts. Gas, Electric and Water Utility: (1) Cities 1,000-2,500 pop. - .581% of gross receipts; (2) Cities 2,500-10,000 pop. - 1.070%; (3) Cities 10,000 pop. or more - 1.997%. Gas Utility Administration: 1/4 of 1% of gross receipts of gas utility.
Telephone Tax	(1) Cities less than 2,500 pop. - 1.65% of gross receipts on basic local exchange service. (2) Cities 2,500-10,000 pop. - 1.925%. (3) Cities 10,000 pop. or more - 2.5025%.
Hotel and Motel Tax	6% of consideration paid by occupant.

* Taxes not shown include: Cement Tax, Oil and Gas Well Servicing Tax, Bingo Tax, Sulphur Tax, Coin-Operated Amusement Machine Tax and minor occupation taxes.

SOURCES: Comptroller of Public Accounts, Manual of Accounts, Volume II - Revenue (Sept. 1987) and House Bill 79, Acts of the 69th Legislature, rd Called Session, 1986.

TABLE 5
TEXAS PER CAPITA STATE TAX COLLECTIONS

Fiscal Year	State Tax Collections	Resident Population	Per Capita Tax Collections	Percent Change	Taxes as a Percent of Personal Income
1970	$ 1,782,640,152	11,199,000	$ 159.18	- %	4.53%
1971	1,992,055,564	11,510,000	173.07	8.7	4.69
1972	2,341,326,235	11,759,000	199.11	15.0	4.99
1973	2,582,903,255	12,019,000	214.90	7.9	4.80
1974	3,026,705,043	12,268,000	246.72	14.8	4.98
1975	3,367,751,883	12,568,000	267.96	8.6	4.90
1976	3,913,827,072	12,903,000	303.33	13.2	5.00
1977	4,419,881,616	13,192,000	335.04	10.5	4.99
1978	5,032,274,299	13,498,000	372.82	11.3	4.94
1979	5,390,313,009	13,887,000	388.16	4.1	4.54
1980	6,343,785,161	14,229,191	445.83	14.9	4.66
1981	7,742,032,894	14,766,000	524.31	17.6	5.06
1982	8,650,025,743	15,376,000	562.57	7.3	5.03
1983	8,497,817,125	15,818,000	537.22	-4.5	4.71
1984	9,305,839,492	16,083,000	578.61	7.7	4.71
1985	10,721,208,262	16,389,000	654.17	13.1	5.00
1986	10,231,670,211	16,685,000	613.23	-6.3	4.73
1987	10,266,162,781	16,863,000	608.80	-0.7	4.57
1988	12,364,618,925	16,929,600 e	730.36 e	20.0 e	5.13e

SOURCE: Tax collection data was compiled from the Texas Comptroller of Public Accounts, ***Annual Financial Report*** (Austin: various years). Population and personal and income figures are from U. S. Department of Commerce, Bureau of Census and Bureau of Economic Analysis. 1988 population and personal income are based on Comptroller of Public Accounts estimates.

e - estimated

Federal Funds

(Tables 6 - 7)

Texas' second-largest source of revenue is federal funding which totaled $4.5 billion in fiscal 1988 — a 10.7 percent increase from the $4.1 billion received in fiscal 1987. This year's increase reflects a turnaround from the 0.8 percent drop in funding from fiscal 1986 to fiscal 1987.

A wide variety of state programs — from highway projects to the School Lunch Program — benefit from federal funding. Welfare programs continue to receive the largest portion of federal funding. In fiscal 1988, the federal government provided $1.8 billion for welfare programs in Texas. Much of this funding helps individuals through direct payments and health services.

The second-largest share of federal money was $913.2 million to fund highway projects. Federal education funding for local school systems in Texas amounted to $795.3 million in fiscal 1988.

Table 6 outlines the programs supported by federal funds in Texas and which of those are matched or unmatched. Matched programs require the state to put up matching dollars before federal funds can be spent. This table reflects only those federal dollars that flow through the State Treasury. Local governments may also benefit from direct federal grants and state universities receive federal funding for research and special projects.

TABLE 6
FEDERAL REVENUE BY PROGRAM CATEGORY
FUNDS 1-899
Year Ended August 31

PROGRAM CATEGORY	1984 *	1985	1986	1987	1988
Welfare					
Matched	$ 1,182,805,067	$ 1,331,199,453	$ 1,351,726,505	$ 1,574,266,018	$ 1,726,261,292
Unmatched	104,540,760	123,677,968	122,868,019	102,475,468	110,985,533
	1,287,345,827	1,454,877,421	1,474,594,524	1,676,741,486	1,837,246,825
Education					
Matched	3,471,033	4,573,788	6,056,911	5,895,876	7,248,225
Unmatched	603,800,631	631,822,331	701,077,943	701,762,543	788,055,964
	607,271,664	636,396,119	707,134,854	707,658,419	795,304,189
Highways/Transportation					
Matched	559,808,746	646,379,837	918,604,539	848,229,860	912,441,754
Unmatched	241,713	188,008	193,384	566,376	774,645
	560,050,459	646,567,845	918,797,923	848,796,236	913,216,399
Health/Social/Rehabilitative Services					
Matched	154,266,823	192,638,801	210,886,564	157,685,457	181,823,280
Unmatched	290,677,715	331,438,047	364,713,440	426,709,386	296,985,411
	444,944,538	524,076,848	575,600,004	584,394,843	478,808,691
Revenue Sharing					
Unmatched	0	0	0	0	0
	0	0	0	0	0
Unemployment Compensation					
Unmatched	131,653,713	133,005,784	135,005,304	147,654,505	154,445,309
	131,653,713	133,005,784	135,005,304	147,654,505	154,445,309
Public Safety/Law Enforcement					
Matched	9,303,042	15,237,372	28,625,694	33,825,249	55,723,226
Unmatched	36,313,006	15,249,131	9,670,370	13,257,533	189,337,749
	45,616,048	30,486,503	38,296,064	47,082,782	245,060,975
Natural Resources/Environmental					
Matched	18,664,086	22,769,843	23,070,720	25,506,925	32,825,463
Unmatched	11,850,307	11,063,058	13,479,966	13,714,302	20,787,711
	30,514,393	33,832,901	36,550,686	39,221,227	53,613,174
General Government					
Matched	2,116,181	57,168	53,055	1,582	6,218,497
Unmatched	1,419,473	3,211,012	216,335,751	19,131,169	22,807,739
	3,535,654	3,268,180	216,388,806	19,132,751	29,026,236
Other					
Matched	2,179,568	3,347,355	3,183,538	3,226,324	7,026,081
Unmatched	2,592,418	4,016,056	3,920,879	4,193,812	1,380,679
	4,771,986	7,363,411	7,104,417	7,420,136	8,406,760
TOTAL - MATCHED	1,932,614,546	2,216,203,617	2,542,207,526	2,648,637,291	2,929,567,818
TOTAL - UNMATCHED	1,183,089,736	1,253,671,395	1,567,265,056	1,429,465,094	1,585,560,740
GRAND TOTAL	$ 3,115,704,282	$ 3,469,875,012	$ 4,109,472,582	$ 4,078,102,385	$ 4,515,128,558

* 1984 figures have been adjusted.

TABLE 7
FEDERAL REVENUE BY AGENCY
FUNDS 1-899
Year Ended August 31

	1984*	1985	1986	1987	1988
Department of Human Services	$1,287,345,828	$1,454,877,420	$1,474,594,524	$1,676,740,837	$1,837,246,825
Highways & Public Transportation	563,432,141	653,875,208	925,697,764	854,788,425	918,720,536
Texas Education Agency	594,950,735	626,589,110	699,329,963	699,304,368	785,697,748
Office of the Governor	3,469,943	3,205,294	4,973,886	5,946,088	252,950,678
Tx Economic Development Commission	122,631	29,691	55,967	0	198,815,214
Department of Health	125,101,632	142,896,109	153,785,754	157,041,643	171,654,393
Texas Employment Commission	131,650,961	133,005,784	135,005,304	147,654,505	154,445,309
Texas Rehabilitation Commission	90,977,713	94,116,854	101,507,813	103,834,116	130,704,137
Department of Community Affairs	139,127,999	195,039,705	230,541,528	237,242,829	67,954,844
All Others	179,524,699	166,239,837	383,980,079	195,549,574	-3,061,126
TOTAL, ALL AGENCIES	$3,115,704,282	$3,469,875,012	$4,109,472,582	$4,078,102,385	$4,515,128,558

* 1984 figures have been adjusted

State Expenditures

Spending in Texas increased 8.9 percent in fiscal 1988, totaling $19.3 billion compared to $17.8 billion in fiscal 1987. This higher spending reflects the Legislature's efforts to maintain state services at fiscal 1987 levels. Fiscal 1988 spending also reflects higher expenditures required because of the state's continued efforts to meet court-ordered improvements to the state's prison and mental health systems.

Spending by Function

(Tables 8 - 10)

State spending supports several broad "functions" of responsibility, such as education and services. Of the functions of state government, Texas spends by far the largest amount on education.

In fiscal 1988, the state poured $9.0 billion into public education, up from $8.6 billion in fiscal 1987. The majority of 1988 spending — $8.3 billion — supported public schools and universities. The balance represents the state's contribution to teacher retirement. Fiscal 1988's higher spending came on the heels of a fiscal year in which education spending decreased.

Services, which include funding for welfare and mental health, state schools for mentally ill or troubled youths and correctional facilities, is the second-largest function of state spending. Services accounted for $4.7 billion in state spending, increasing 10.9 percent from the $4.2 billion spent in fiscal 1987.

Improvements to state facilities such as highways and parks increased 13.4 percent in fiscal 1988 — jumping from $2.7 billion in fiscal 1987 to $3.0 billion in fiscal 1988.

TABLE 8
NET EXPENDITURES BY FUNCTION AND CLOSING CASH BALANCES
FUNDS 1-899
Year Ended August 31

	1984	1985	1986	1987	1988
ADMINISTRATIVE					
Executive Departments	$ 372,763,316	$ 392,905,046	$ 424,530,575	$ 401,981,131	$ 511,174,365
Business Regulatory Commission	106,220,526	120,130,948	134,360,295	130,827,199	161,804,534
Legislative	44,383,241	48,707,382	42,631,391	47,779,911	47,881,441
Judicial	45,513,231	47,054,964	48,430,375	44,667,454	49,721,801
Total	568,880,314	608,798,340	649,952,636	625,255,695	770,582,141
SERVICES					
Welfare	2,315,710,019	2,421,818,215	2,517,857,871	2,870,681,737	3,021,684,269
Mental Health, State Homes & Corrections	864,077,112	929,570,099	1,011,723,303	967,421,415	1,171,520,451
Health and Sanitation	210,728,367	245,545,812	225,218,148	205,124,279	288,272,475
Law Enforcement	160,192,233	164,490,953	170,443,625	152,939,854	171,459,706
Total	3,550,707,731	3,761,425,079	3,925,242,947	4,196,167,285	4,652,936,901
IMPROVEMENTS					
Highway Maintenance and Construction	1,437,715,827	1,553,256,070	2,428,919,023	2,428,563,886	2,756,680,354
Natural Resources	138,424,738	151,909,954	156,909,765	148,203,898	163,820,523
Parks and Monuments	83,730,675	92,601,762	89,962,421	100,254,837	113,994,076
Total	1,659,871,240	1,797,767,786	2,675,791,209	2,677,022,621	3,034,494,953
EDUCATION					
Support to State and Local Education	6,697,513,750	7,921,515,254	7,899,868,790	7,863,945,605	8,258,586,443
State Contribution to Teacher Retirement	587,972,019	662,297,683	725,138,636	753,184,410	764,740,784
Total	7,285,485,769	8,583,812,937	8,625,007,426	8,617,130,015	9,023,327,227
OTHER EXPENDITURES					
Grants to Political Subdivisions	581,695,371	637,747,037	708,455,199	688,701,373	784,053,109
Payment of Public Debt	167,847,446	224,503,082	1,298,471,827	317,983,197	428,125,053
State Contribution to Employee Social Security	361,824,972	389,167,128	403,217,092	431,251,924	439,135,497
State Contribution to Employee Retirement	152,573,580	161,681,853	161,325,447	164,464,415	161,294,748
Miscellaneous	20,030,771	21,787,905	35,675,231	35,193,326	35,120,482
Total	1,283,972,140	1,434,887,005	2,607,144,796	1,637,594,235	1,847,728,889
TOTAL NET EXPENDITURES	$ 14,348,917,194	$ 16,186,691,147	$ 18,483,139,014	$ 17,753,169,851	$ 19,329,070,111
Net Interfund Transfers and Investment Transactions	$ 746,453,029	$ 955,900,819	$ 126,208,184	$ 1,012,702,922	$ 92,110,726
Expenditures from Petty Cash to State Treasury	34,706	66,657	333,220	107,828	49,814
Closing Net Cash Balances, August 31,					
State Treasury	2,048,614,861	2,071,074,028	1,860,283,729	935,176,923	1,920,948,509
Petty Cash	3,564,248	3,790,551	5,387,828	5,743,034	6,262,949
Total, Closing Net Cash Balances, Year Ended August 31,	2,052,179,109	2,074,864,579	1,865,671,557	940,919,957	1,927,211,458
TOTAL NET EXPENDITURES & CLOSING CASH BALANCES	$ 17,147,584,038	$ 19,217,523,202	$ 20,475,351,975	$ 19,706,900,558	$ 21,348,442,109

TABLE 9
PERCENTAGE OF NET EXPENDITURES BY FUNCTION
FUNDS 1-899

	Percentage of Total				
	1984	1985	1986	1987	1988
ADMINISTRATIVE					
Executive Departments	2.6 %	2.4 %	2.3 %	2.3 %	2.6 %
Business Regulatory Commissions	0.8	0.8	0.7	0.7	0.8
Legislative	0.3	0.3	0.2	0.3	0.3
Judicial	0.3	0.3	0.3	0.2	0.3
TOTAL	4.0	3.8	3.5	3.5	4.0
SERVICES					
Welfare	16.1	15.0	13.6	16.2	15.6
Mental Health, State Homes and Corrections	6.0	5.7	5.5	5.4	6.1
Health and Sanitation	1.5	1.5	1.2	1.2	1.5
Law Enforcement	1.1	1.0	0.9	0.9	0.9
TOTAL	24.7	23.2	21.2	23.7	24.1
IMPROVEMENTS					
Highway Maintenance and Construction	10.0	9.6	13.1	13.7	14.3
Natural Resources	1.0	0.9	0.9	0.8	0.8
Parks and Monuments	0.6	0.6	0.5	0.6	0.6
TOTAL	11.6	11.1	14.5	15.1	15.7
EDUCATION					
Support to State and Local Education	46.7	48.9	42.8	44.3	42.7
State Contribution to Teacher Retirement	4.1	4.1	3.9	4.2	3.9
TOTAL	50.8	53.0	46.7	48.5	46.6
OTHER EXPENDITURES					
Grants to Political Subdivisions	4.0	4.0	3.8	3.9	4.1
Payment of Public Debt	1.2	1.4	7.0	1.8	2.2
State Contribution to Employee Social Security	2.5	2.4	2.2	2.4	2.3
State Contribution to Employee Retirement	1.1	1.0	0.9	0.9	0.8
Miscellaneous	0.1	0.1	0.2	0.2	0.2
TOTAL	8.9	8.9	14.1	9.2	9.6
TOTAL NET EXPENDITURES	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %

TABLE 10
ANNUAL PERCENTAGE CHANGE IN NET EXPENDITURES BY FUNCTION
FUNDS 1-899

	Percentage Change from Prior Year			
	1985	1986	1987	1988
ADMINISTRATIVE				
Executive Departments	5.4 %	8.0 %	-5.3 %	27.2 %
Business Regulatory Commissions	13.1	11.8	-2.6	23.7
Legislative	9.7	-12.5	12.1	0.2
Judicial	3.4	2.9	-7.8	11.3
TOTAL	7.0	6.8	-3.8	23.2
SERVICES				
Welfare	4.6	4.0	14.0	5.3
Mental Health, State Homes and Corrections	7.6	8.8	-4.4	21.1
Health and Sanitation	16.5	-8.3	-8.9	40.5
Law Enforcement	2.7	3.6	-10.3	12.1
TOTAL	5.9	4.4	6.9	10.9
IMPROVEMENTS				
Highway Maintenance and Construction	8.0	56.4	0.0	13.5
Natural Resources	9.7	3.3	-5.5	10.5
Parks and Monuments	10.6	-2.9	11.4	13.7
TOTAL	8.3	48.8	0.0	13.4
EDUCATION				
Support to State and Local Education	18.3	-0.3	-0.5	5.0
State Contribution to Teacher Retirement	12.6	9.5	3.9	1.5
TOTAL	17.8	0.5	-0.1	4.7
OTHER EXPENDITURES				
Grants to Political Subdivisions	9.6	11.1	-2.8	13.8
Payment of Public Debt	33.8	478.4	-75.5	34.6
State Contribution to Employee Social Security	7.6	3.6	7.0	1.8
State Contribution to Employee Retirement	6.0	-0.2	1.9	-1.9
Miscellaneous	8.8	63.7	-1.4	-0.2
TOTAL	11.8	81.7	-37.2	12.8
TOTAL NET EXPENDITURES	12.8 %	14.2 %	-3.9 %	8.9 %

Spending by Object

(Tables 11 - 13)

State spending also can be broken down into various items — or objects — of expenditures. Among these are salaries and wages, operating expenses and capital spending for highway construction.

The Foundation School Program, the main source of funding for public education, is traditionally the largest object of state spending. This year, $4.9 billion was funneled to public education through the Foundation School Program, which is administered by the Texas Education Agency. This reflects an increase of 2.1 percent from last fiscal year.

Paying state employees, including faculty at state colleges and universities, accounted for the second-largest chunk of state funds in fiscal 1988. Expansion of state programs required additional staff during fiscal 1988, increasing the amount spent on wages and salaries to $3.9 billion, a 13.2 percent increase from 1987.

TABLE 11
NET EXPENDITURES BY OBJECT
FUNDS 1-899
Year Ended August 31

OBJECT CATEGORY	1984	1985	1986	1987	1988
Salaries and Wages	$ 3,269,715,574	$ 3,509,951,720	$ 3,618,163,675	$ 3,410,269,675	$ 3,860,960,649
Other Personal Services	1,372,356,301	1,532,854,334	1,675,864,939	1,766,519,803	1,999,202,668
Consumable Supplies and Materials	362,415,919	411,136,967	411,742,479	369,959,015	332,509,819
Current and Recurring Operating Expenses	645,481,446	663,244,719	697,684,608	658,179,279	696,179,378
Assistance and Medical Care for Needy	1,849,505,164	1,919,705,902	1,992,541,049	2,370,167,029	2,517,904,223
Foundation School Program Grants	3,691,244,791	4,718,451,356	4,676,241,724	4,807,441,125	4,907,669,912
Other Public Education Grants	593,202,720	627,460,867	691,868,965	689,537,991	769,575,099
Grants to Higher Education	521,038,082	565,188,033	534,907,463	491,675,409	512,708,946
Other Grants	581,695,371	637,747,037	708,455,199	688,701,373	784,009,550
Payment of Principal on Indebtedness	74,729,000	80,263,790	1,148,085,413	74,255,283	121,950,695
Payment of Interest and Other Claims	94,404,470	145,136,702	158,926,090	246,512,883	307,337,942
Capital Outlay for Highways	788,557,285	836,169,759	1,519,246,782	1,556,938,760	1,877,989,163
Capital Outlay for Land and Buildings	242,938,361	236,206,253	287,698,563	248,706,528	238,405,142
Other Capital Outlay	261,632,710	303,173,708	361,712,065	374,305,698	402,666,925
TOTAL NET EXPENDITURES	$ 14,348,917,194	$ 16,186,691,147	$ 18,483,139,014	$17,753,169,851	$19,329,070,111

TABLE 12
PERCENTAGE OF NET EXPENDITURES BY OBJECT
FUNDS 1-899

OBJECT CATEGORY	1984	1985	1986	1987	1988
Salaries and Wages	22.8 %	21.7 %	19.6 %	19.2 %	20.0 %
Other Personal Services	9.6	9.5	9.1	9.9	10.3
Consumable Supplies and Materials	2.5	2.5	2.2	2.1	1.7
Current and Recurring Operating Expenses	4.5	4.1	3.8	3.7	3.6
Assistance and Medical Care for Needy	12.9	11.8	10.8	13.3	13.0
Foundation School Program Grants	25.7	29.2	25.3	27.1	25.4
Other Public Education Grants	4.1	3.9	3.7	3.9	4.0
Grants to Higher Education	3.6	3.5	2.9	2.8	2.7
Other Grants	4.1	3.9	3.8	3.9	4.1
Payment of Principal on Indebtedness	0.5	0.5	6.2	0.4	0.6
Payment of Interest and Other Claims	0.7	0.9	0.9	1.4	1.6
Capital Outlay for Highways	5.5	5.2	8.2	8.8	9.7
Capital Outlay for Land and Buildings	1.7	1.4	1.6	1.4	1.2
Other Capital Outlay	1.8	1.9	1.9	2.1	2.1
TOTAL NET EXPENDITURES	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %

TABLE 13
ANNUAL PERCENTAGE CHANGE IN NET EXPENDITURES BY OBJECT
FUNDS 1-899

OBJECT CATEGORY	1985	1986	1987	1988
Salaries and Wages	7.3 %	3.1 %	-5.7 %	13.2 %
Other Personal Services	11.7	9.3	5.4	13.2
Consumable Supplies and Materials	13.4	0.1	-10.1	-10.1
Current and Recurring Operating Expenses	2.8	5.2	-5.7	5.8
Assistance and Medical Care for Needy	3.8	3.8	19.0	6.2
Foundation School Program Grants	27.8	-0.9	2.8	2.1
Other Public Education Grants	5.8	10.3	-0.3	11.6
Grants to Higher Education	8.5	-5.4	-8.1	4.3
Other Grants	9.6	11.1	-2.8	13.8
Payment of Principal on Indebtedness	7.4	1,330.4	-93.5	64.2
Payment of Interest and Other Claims	53.7	9.5	55.1	24.7
Capital Outlay for Highways	6.0	81.7	2.5	20.6
Capital Outlay for Land and Buildings	-2.8	21.8	-13.6	-4.1
Other Capital Outlay	15.9	19.3	3.5	7.6
TOTAL NET EXPENDITURES	12.8 %	14.2 %	-3.9 %	8.9 %

Flow of Funds to Local Governments
(Table 14)

In fiscal 1988, Texas channeled $7.7 billion from state and federal sources to local governments for a variety of program categories.

Education is by far the largest category of state and federal funds flowing to local governments. A total of $6.1 billion was sent to local governments to support education programs in fiscal 1988. Local school districts receive Foundation School Program funding as well as money for programs such as Distributive Education and the School Lunch Program.

State and federal dollars also find their way to local governments to help fund highway and transportation programs for local road, airport and public transit projects and services. Local law enforcement, traffic safety, civil defense and disaster relief programs are supported through public safety grants.

Local governments receive funding in the General Government, Social Services and Natural Resources category for an assortment of programs which fund everything from administrative functions to services for the poor and elderly, from parks and recreation areas to pollution control programs.

The Shared Revenue category reflects money collected from the Mixed Drinks Gross Receipts Tax and allocated to cities and counties. Taxes Collected in Trust include local sales and use taxes as well as metropolitan transit authority taxes which are collected by the Comptroller and distributed to local governments.

TABLE 14
FLOW OF FUNDS TO LOCAL GOVERNMENTS
Year Ended August 31, 1988

	Cities	Counties	Metropolitan Transit Authorities	Junior Colleges	School Districts	Total
STATE GRANTS						
Highways/Transportation	$ 1,788,777	$ 7,580,790	$	$	$	$ 9,369,567
Public Safety	7,246,586	10,741,514				17,988,100
Education				428,293,702	4,935,813,679	5,364,107,381
General Government/ Social Services/ Natural Resources	16,769,034	17,929,873				34,698,907
TOTAL	25,804,397	36,252,177		428,293,702	4,935,813,679	5,426,163,955
FEDERAL GRANTS						
Highways/Transportation	1,054,305	894,629				1,948,934
Public Safety	65,668,032	24,132,559				89,800,591
Education				2,350,411	741,431,332	743,781,743
General Government/ Social Services/ Natural Resources	38,349,891	12,542,538				50,892,429
TOTAL	105,072,228	37,569,726		2,350,411	741,431,332	886,423,697
SHARED REVENUE						
Mixed Drinks Gross Receipts Tax	20,510,194	21,957,872				42,468,066
TOTAL	20,510,194	21,957,872				42,468,066
TAXES COLLECTED IN TRUST						
City Sales Tax	915,971,077					915,971,077
MTA Tax			420,278,479			420,278,479
TOTAL	915,971,077		420,278,479			1,336,249,556
TOTAL FUNDS TO LOCAL GOVERNMENTS	$ 1,067,357,896	$ 95,779,775	$ 420,278,479	$ 430,644,113	$ 5,677,245,011	$ 7,691,305,274

Financial Condition

Cash Condition

(Tables 15 - 17)

Texas started fiscal 1988 with an opening cash balance of $1.7 billion in all funds. The ending cash balance in all funds on August 31, 1988, was $2.7 billion.

Table 15 shows receipts, spending and ending cash balances in each fund category.

The all-funds ending cash balance does not represent cash available for general state spending.

TABLE 15
STATEMENT OF CASH CONDITION
Year Ended August 31, 1988

	General Revenue (001)	Special Revenue (002-899)	Total (1-899)	Trust & Suspense (900-999)	Total All Funds
FUND BALANCE - SEPTEMBER 1, 1987					
Cash in State Treasury	$- 745,222,805	$ 1,680,399,728	$ 935,176,923	$ 741,539,480	$ 1,676,716,403
Cash in Petty Cash Accounts	1,444,132	4,298,902	5,743,034	16,699	5,759,733
	-743,778,673	1,684,698,630	940,919,957	741,556,179	1,682,476,136
NET REVENUE					
Tax Collections	12,091,560,995	273,057,930	12,364,618,925	0	12,364,618,925
Licenses and Fees	318,050,593	1,066,058,805	1,384,109,398	73,188,590	1,457,297,988
Interest Income	-16,869,547	1,185,875,327	1,169,005,780	1,861,225,484	3,030,231,264
Federal Funding	89,845,025	4,425,283,533	4,515,128,558	0	4,515,128,558
Land Income: Rents, Royalties, Sales	5,615,777	282,983,172	288,598,949	15,918	288,614,867
Other Net Revenue	122,518,289	562,972,524	685,490,813	382,124,369	1,067,615,182
TOTAL NET REVENUE	12,610,721,132	7,796,231,291	20,406,952,423	2,316,554,361	22,723,506,784
OTHER SOURCES					
Repayment of Loans	75,537	64,224,697	64,300,234	445,377,307	509,677,541
Bond Sale Proceeds	0	423,141,369	423,141,369	0	423,141,369
Proceeds From Sale of Cash Management Notes	0	1,691,250,000	1,691,250,000	0	1,691,250,000
Sale/Redemption of Investments	47	11,151,826,678	11,151,826,725	8,908,100,366	20,059,927,091
School Bus Repayments	0	45,583,656	45,583,656	0	45,583,656
Deposits to Trust and Suspense	-2,633	23,922,687	23,920,054	6,466,165,001	6,490,085,055
Direct Deposit Transfers	0	0	0	1,186,783,559	1,186,783,559
Departmental Transfers	283,361,576	59,132,080	342,493,656	272,009	342,765,665
Operating Fund Transfers	-3,335,568,868	6,898,573,243	3,563,004,375	821,773,348	4,384,777,723
Residual Equity Transfers	80,665,997	-73,607,990	7,058,007	-7,058,007	0
TOTAL OTHER SOURCES	-2,971,468,344	20,284,046,420	17,312,578,076	17,821,413,583	35,133,991,659
TOTAL REVENUE AND OTHER SOURCES	$ 9,639,252,788	$ 28,080,277,711	$ 37,719,530,499	$ 20,137,967,944	$ 57,857,498,443

TABLE 15 (Continued)
STATEMENT OF CASH CONDITION
Year Ended August 31, 1988

	General Revenue (001)	Special Revenue (002-899)	Total (1-899)	Trust & Suspense (900-999)	Total All Funds
NET EXPENDITURES					
Legislative	$ 47,881,441	$ 0	$ 47,881,441	$ 0	$ 47,881,441
Judicial	36,353,294	13,368,507	49,721,801	0	49,721,801
Executive	249,996,572	261,177,793	511,174,365	7,714,611	518,888,976
Law Enforcement	11,230,450	160,229,256	171,459,706	0	171,459,706
Business Regulation	83,584,532	78,220,002	161,804,534	468,824	162,273,358
Health and Regulation	213,276,050	74,996,425	288,272,475	0	288,272,475
Natural Resources	138,672,119	25,148,404	163,820,523	23,258	163,843,781
Highway Maintenance & Construction	100,707	2,756,579,647	2,756,680,354	0	2,756,680,354
Mental Health, State Homes & Corrections	1,121,669,021	49,851,430	1,171,520,451	0	1,171,520,451
Support to State and Local Education	2,083,521,418	6,175,065,025	8,258,586,443	0	8,258,586,443
Parks and Monuments	15,267,224	98,726,852	113,994,076	675,926	114,670,002
Welfare	38,250,614	2,983,433,655	3,021,684,269	70,035,537	3,091,719,806
Payment of Public Debt	54,874,892	373,250,161	428,125,053	859,896,568	1,288,021,621
Employees Retirement	83,220,065	78,074,683	161,294,748	355,419	161,650,167
Employees Social Security	279,588,432	159,547,065	439,135,497	1,463,179	440,598,676
Grants to Political Subdivisions	236,403,917	547,649,192	784,053,109	898	784,054,007
Contributions to Teacher Retirement	763,631,389	1,109,395	764,740,784	18,723,909	783,464,693
Miscellaneous	21,808,509	13,311,973	35,120,482	40,610	35,161,092
TOTAL NET EXPENDITURES	5,479,330,646	13,849,739,465	19,329,070,111	959,398,739	20,288,468,850
OTHER USES					
Repayment of Loans	243,796	23,767,116	24,010,912	5,800	24,016,712
Repayment of Cash Management Notes	0	1,250,000,000	1,250,000,000	0	1,250,000,000
Purchase of Securities	-78	11,929,096,923	11,929,096,845	11,694,458,540	23,623,555,385
Purchases for Resale	4,216,244	75,531,838	79,748,082	0	79,748,082
Misc. Nongovernmental Expenditures	0	45,822,654	45,822,654	0	45,822,654
Trust and Suspense Payments	-10,455	39,095,084	39,084,629	5,160,118,527	5,199,203,156
Teacher & Employee Retirement Payments	7,093,082	25,000	7,118,082	1,058,458,933	1,065,577,015
Direct Deposit Transfers	0	0	0	1,186,783,559	1,186,783,559
Departmental Transfers	45,499,540	279,465,550	324,965,090	1,861,495	326,826,585
Operating Fund Transfers	3,244,400,261	460,442,248	3,704,842,509	7,679,630	3,712,522,139
TOTAL OTHER USES	3,301,442,390	14,103,246,413	17,404,688,803	19,109,366,484	36,514,055,287
TOTAL EXPENDITURES AND OTHER USES	8,780,773,036	27,952,985,878	36,733,758,914	20,068,765,223	56,802,524,137
Petty Cash Accounts Opened	108,744	460,985	569,729	5,800	575,529
Petty Cash Accounts Closed	-32,619	-17,195	-49,814	0	-49,814
FUND BALANCE - YEAR ENDED AUGUST 31, 1988	$ 114,777,204	$ 1,812,434,253	$ 1,927,211,457	$ 810,764,700	$ 2,737,976,157
CASH IN STATE TREASURY (1)	113,256,947	1,807,691,561	1,920,948,508	810,742,201	2,731,690,709
CASH IN PETTY CASH ACCOUNTS	1,520,257	4,742,692	6,262,949	22,499	6,285,448

(1) Note 2b

Some of this money is designated for specific purposes. For example, earnings and employee contributions to teacher and employee retirement accounts can be used only for retirement benefits or returned to employees leaving state service.

Also, agencies may have contracts to buy goods or services, but because the state operates on a cash-basis accounting system, a debit is not recorded until money actually is spent.

The best reflection of the state's fiscal health is the General Revenue Fund 001 cash balance. The General Revenue Fund opened fiscal 1988 with a deficit of $745.2 million and closed with a $113.3 million cash balance.

TABLE 16
SUMMARY OF CASH CONDITION BY FUND GROUP

		Net Cash Balance 9/1/87	Revenue [1]	Expenditures [1]	Net Cash Balance 8/31/88
GROUP 1:	General State Operating and Disbursing Funds	$ -281,147,673	$ 17,896,083,233	$ 16,970,024,339	$ 644,911,221
GROUP 2:	Constitutional Funds Expendable for Specific Purposes	986,882,784	6,137,253,605	6,517,226,078	606,910,311
GROUP 3:	Federal Funds	110,487,323	1,544,565,634	1,521,049,442	134,003,515
GROUP 4:	Trust or Pledged Funds	1,132,792	7,129,160,772	6,678,229,218	452,064,346
GROUP 5:	Constitutional Nonexpendable Funds	80,557,623	4,901,535,616	4,936,183,385	45,909,854
GROUP 6:	Tax Clearance Funds	32,319,705	97,449,686	94,182,495	35,586,896
GROUP 7:	Petty Cash Funds	5,759,734	575,529	49,814	6,285,449
GROUP 8:	Trust Funds	620,975,179	18,916,128,158	18,889,146,733	647,956,604
GROUP 9:	Suspense Funds	125,508,669	1,235,321,739	1,196,482,447	164,347,961
TOTAL CASH, ALL FUNDS		$ 1,682,476,136	$ 57,858,073,972 [2]	$ 56,802,573,951 [3]	$ 2,737,976,157

[1] Revenue and Expenditures include Interfund Transfers and Investment Transactions.
[2] Includes a $575,529 increase to Petty Cash accounts.
[3] Includes a $49,814 decrease to Petty Cash accounts.

TABLE 17
SUMMARY OF FINANCIAL CONDITION
FUNDS 1-899
Year Ended August 31

	1984	1985	1986	1987	1988
Opening Cash Balance	$ 2,225,310,986	$ 2,052,179,109	$ 2,074,864,579	$ 1,865,671,557	$ 940,919,957
Net Revenue	14,921,949,380	17,165,051,133	18,398,556,900	17,840,765,967	20,406,952,423
Receipts to Petty Cash Accounts	323,672	292,960	1,930,496	463,034	569,729
Total Cash Available	17,147,584,038	19,217,523,202	20,475,351,975	19,706,900,558	21,348,442,109
Less:					
Net Expenditures	14,348,917,194	16,186,691,147	18,483,139,014	17,753,169,851	19,329,070,111
Net Interfund Transfers and Investments Transactions	746,453,029	955,900,819	126,208,184	1,012,702,922	92,110,727
Expenditures from Petty Cash Accounts	34,706	66,657	333,220	107,828	49,814
Closing Net Cash Balance Funds 1-899	2,052,179,109	2,074,864,579	1,865,671,557	940,919,957	1,927,211,457
Investments in State Treasury	21,341,630,945	23,149,866,997	26,702,535,729	30,317,827,356	33,817,530,852
Total Cash and Investments	23,393,810,054	25,224,731,576	28,568,207,286	31,258,747,313	35,744,742,309
Suspense and Trust Cash	530,224,223	633,839,622	659,242,770	745,694,548	581,553,007
Securities in Trust with State Treasury	3,021,915,516	3,203,561,826	3,013,383,710	1,615,533,720	1,342,428,550
Account with Federal Treasury	0	10,608,140	338,000	806,000	230,774,059
TOTAL CASH, INVESTMENTS AND SECURITIES	$ 26,945,949,793	$ 29,072,741,164	$ 32,241,171,766	$ 33,620,781,581	$ 37,899,497,925

Investment Accounts

(Tables 18 - 19)

State agencies had investments worth $33.8 billion deposited in the State Treasury at the close of fiscal 1988.

Various agencies are authorized by law or by the Constitution to invest fund balances in securities. These securities are recorded as paper assets of the fund.

Some of the state funds with investment authority are constitutional, nonexpendable funds. Principal in these funds cannot be appropriated for state spending — only earnings on investments can be appropriated.

For example, assets of the Permanent School Fund 044 cannot be spent, but any income earned on the assets supports public education through the Available School Fund 002.

TABLE 18
SUMMARY OF INVESTMENTS
ALL FUNDS

	Balance 9/1/87	Increase/ Decrease	Balance 8/31/88
TRUST ACCOUNT			
City, County and District Bonds	$ 367,685,278	$ 97,947,466	$ 465,632,744
State Bonds	1,000,000	-1,000,000	0
U.S. Government Securities	8,657,423,577	116,867,689	8,774,291,266
Notes & Other Evidence of Indebtedness	4,956,305,440	2,708,060,211	7,664,365,651
Corporate Obligations	9,375,777,989	-651,152,957	8,724,625,032
Corporate Stock	7,438,610,333	1,401,338,255	8,839,948,588
Loans to Political Subdivisions	3,394,629	410,978	3,805,607
Discount on Investments	-603,679,743	-175,951,884	-779,631,627
Premium on Investments	121,309,853	3,183,738	124,493,591
TOTAL NET INVESTMENTS	$ 30,317,827,356	$ 3,499,703,496	$ 33,817,530,852

TABLE 19
ASSET DISTRIBUTION OF INVESTMENT FUNDS
Year Ended August 31, 1988
(Amounts in Thousands)

	Teacher Retirement System Fund 960	State Employees Retirement Fund 955	Permanent School Fund 044	Permanent University Fund 045	Water Development Fund 351	Veterans Land Program	All Other Funds	Total All Funds
City, County and District Bonds	$ 10,000	$ 0	$ 0	$ 0	$ 440,385	$ 0	$ 15,248	$ 465,633
State Bonds	0	0	0	0	0	0	0	0
U. S. Government Securities	3,140,900	2,103,185	1,685,192	489,042	215,885	697,379	442,708	8,774,291
Notes and Other Evidence of Indebtedness	5,522,779	845,146	365,550	473,410	0	0	457,481	7,664,366
Corporate Obligations	3,592,727	974,572	2,839,744	1,131,872			185,710	8,724,625
Corporate Stock	5,250,034	992,370	1,591,687	1,005,854	0	0	4	8,839,949
Loans to Political Subdivisions	0	0	0	0	0	0	3,806	3,806
Discount on Investments	-493,774	-151,934	-54,167	-55,059	424	-8,152	-16,970	-779,632
Premium on Investments	69,418	43,767	32	1,365	-86	8,581	1,416	124,493
TOTAL FUND BALANCE	$ 17,092,084	$ 4,807,106	$ 6,428,038	$ 3,046,484	$ 656,608	$ 697,808	$ 1,089,403	$ 33,817,531

Bonded Indebtedness

(Tables 20 - 24)

The Texas Constitution authorizes the state to issue bonds to finance several specific programs.

Table 20 details three types of these bonds — General Obligation Bonds, Permanent University Fund Bonds and Higher Education Constitutional Bonds.

Bonded indebtedness from these three types of bonds totaled $3.3 billion on August 31, 1988. This is a 10.8 percent increase over the $2.9 billion in debt on these bonds at the close of fiscal 1987.

General Obligation Bonds

Nine categories of general obligation bonds, backed by the full faith and credit of the state, are authorized by the Constitution.

Veterans Land Bonds totaled $666.2 million in fiscal 1988 — a .06 percent decrease from the $705 million in Veterans Land Bonds issued through August 31, 1987. Veterans Land Bond proceeds are used to buy land which is resold to qualified Texas veterans under the Veterans Land Program.

Veterans Housing Assistance Bonds amounted to $718.1 million in fiscal 1988. Money raised from the sale of these bonds is loaned to qualified Texas veterans to purchase homes.

TABLE 20
STATEMENT OF BONDED INDEBTEDNESS (PRINCIPAL)
Year Ended August 31, 1988

	Outstanding 9/1/87	New Issues	Retired	Refunded	Outstanding 8/31/88	Increase/ Decrease
GENERAL OBLIGATION BONDS						
Veterans Bonds (1)	$ 1,440,745,000	$ 0	$ 56,490,000	$ 0	$ 1,384,255,000	$ -56,490,000
Water Development Bonds (2)	493,082,000	119,447,500	16,785,000	0	595,744,500	102,662,500
Park Development Bonds	31,250,000	0	1,450,000	0	29,800,000	-1,450,000
College Student Loan Bonds	106,915,000	0	9,075,000	0	97,840,000	-9,075,000
Farm and Ranch Loan Security Bonds	10,000,000	0	0	0	10,000,000	0
Texas Public Finance Authority Bonds	0	285,430,000	0	0	285,430,000	285,430,000
TOTAL GENERAL OBLIGATION BONDS	2,081,992,000	404,877,500	83,800,000	0	2,403,069,500	321,077,500
PERMANENT UNIVERSITY FUND BONDS						
Texas A & M University	220,690,000	55,000,000	1,510,000	50,000,000	224,180,000	3,490,000
University of Texas	427,420,000	125,000,000	10,320,000	100,000,000	442,100,000	14,680,000
TOTAL PERMANENT UNIVERSITY FUND BONDS	648,110,000	180,000,000	11,830,000	150,000,000	666,280,000	18,170,000
HIGHER EDUCATION CONSTITUTIONAL BONDS	220,190,000	0	21,070,000	0	199,120,000	-21,070,000
TOTAL ALL BONDS	$ 2,950,292,000	$ 584,877,500	$ 116,700,000	$ 150,000,000	$ 3,268,469,500	$ 318,177,500

(1) Includes both Veterans Land Bonds and Veterans Housing Bonds
(2) Includes accretion on compound interest notes

Farm and Ranch Loan Bonds can be used to provide loans of up to $250,000 to qualified Texas residents for the purchase of farms or ranches. None of these bonds were issued during fiscal 1988.

Water Development Bonds added up to $595.7 million on August 31, 1988. These bonds provide capital for loans to local governments for water and sewer projects and capital for the state's share in reservoirs.

Park Development Bond debt totaled $29.8 million in fiscal 1988. These bonds are sold to finance the purchase and improvement of state park sites. Park entrance fees and investment income are applied to the bond debt and interest.

TABLE 21
SUMMARY OF NET REVENUE AVAILABLE FOR GENERAL OBLIGATION DEBT SERVICE
ALL FUNDS
Year Ended August 31, 1988

Receipt Type	Total Revenue	Revenue of Constitutional & Federal Funds	Balance Available for Debt Service
Tax Collections	$ 12,364,618,925	$ 1,979,369,145	$ 10,385,249,780
Business/Professional Fees	173,231,732	735,425	172,496,307
Noncommercial Permits & Fees	1,006,184,409	652,790,821	353,393,588
Violations, Fines & Penalties	89,186,594	326,061	88,860,533
State Service Fees	270,394,991	458,775	269,936,216
Sales, Rentals & Repayments	260,129,225	187,621,533	72,507,692
Donations & Grants	3,722,796	39,773	3,683,023
Transfers	5,619,513,396	5,619,513,396	0
Interagency Sales of Goods & Services	294,813,551	294,813,551	0
Investment Transactions	22,284,202,350	22,284,202,350	0
Federal Receipts	4,515,128,558	4,515,128,558	0
Interest/Dividends	3,640,497,880	1,298,319,101	2,342,178,779
Land Income	280,628,118	271,004,773	9,623,345
Other Receipts	119,783,556	591,860	119,191,696
Trust Receipts	6,935,462,362	6,935,462,362	0
TOTAL NET REVENUE AND INTERFUND TRANSFERS	$ 57,857,498,443	$ 44,040,377,484	$ 13,817,120,959

TABLE 22
GENERAL OBLIGATION BOND DEBT SERVICE REQUIREMENTS

Fiscal Year	Veterans Bonds [1] Principal	Veterans Bonds [1] Interest	Water Development Bonds Principal	Water Development Bonds Interest	Park Development Bonds Principal	Park Development Bonds Interest
1989	$ 64,225,000	$ 108,099,348	$ 17,525,000	$ 39,715,170	$ 500,000	$ 2,379,875
1990	65,720,000	102,735,265	19,445,000	37,904,884	500,000	2,333,625
1991	74,460,000	96,853,435	21,820,000	36,691,301	1,000,000	2,264,250
1992	71,535,000	90,788,649	25,480,000	35,239,581	1,000,000	2,171,750
1993	72,790,000	85,045,018	26,810,000	33,530,779	1,500,000	2,056,125
1994	75,010,000	79,111,821	29,250,000	31,758,729	1,500,000	1,917,375
1995	75,155,000	73,130,043	31,325,000	29,763,134	1,500,000	1,780,500
1996	73,335,000	67,279,365	33,660,000	27,736,431	2,000,000	1,639,000
1997	78,280,000	61,269,180	36,950,000	25,460,871	2,000,000	1,489,000
1998	80,075,000	54,992,251	42,350,000	22,878,195	3,000,000	1,296,750
1999	80,090,000	48,711,784	18,530,624	40,182,671	3,000,000	1,064,250
2000	83,185,000	42,258,268	24,202,245	25,638,195	3,500,000	808,000
2001	86,205,000	35,660,070	31,905,000	18,156,518	4,000,000	508,000
2002	87,685,000	29,045,405	34,145,000	16,024,452	4,800,000	174,000
2003	85,160,000	22,476,350	36,560,000	13,707,571		
2004	48,045,000	16,993,300	39,150,000	11,192,408		
2005	7,800,000	14,825,000	41,830,000	8,559,905		
2006	8,600,000	14,169,000	31,245,000	5,720,815		
2007	9,400,000	13,437,250	33,510,000	3,546,500		
2008	10,000,000	12,637,000	11,095,000	1,271,163		
2009	11,000,000	11,770,750	8,956,631	476,726		
2010	12,000,000	10,822,000				
2011	13,000,000	9,790,750				
2012	15,000,000	8,632,000				
2013	16,000,000	7,345,500				
2014	17,500,000	5,955,250				
2015	19,000,000	4,440,500				
2016	21,000,000	2,780,500				
2017	23,000,000	954,500				
	$ 1,384,255,000	$ 1,132,009,552	$ 595,744,500	$ 465,155,999	$ 29,800,000	$ 21,882,500

[1] Includes both Veterans Land Bonds and Veterans Housing Bonds.

TABLE 22 (Continued)
GENERAL OBLIGATION BOND DEBT SERVICE REQUIREMENTS

College Student Loan Bonds		Farm & Ranch Loan Security Bonds		Texas Public Finance Authority Bonds		Total General Obligation Bonds
Principal	Interest	Principal	Interest	Principal	Interest	
$ 9,455,000	$ 4,964,026	$	$ 900,000	$	$ 21,355,145	$ 269,118,564
9,765,000	4,438,468		900,000	6,700,000	20,876,070	271,218,312
10,135,000	3,908,068		900,000	7,200,000	20,240,808	275,472,862
10,500,000	3,356,706		900,000	7,800,000	19,558,420	268,330,106
10,895,000	2,797,693		900,000	8,300,000	18,851,708	263,476,323
11,360,000	2,214,648		900,000	8,900,000	18,105,370	260,027,943
11,800,000	1,636,655		900,000	9,600,000	17,310,708	253,901,040
8,460,000	1,046,103	10,000,000	450,000	10,300,000	16,456,920	252,362,819
8,150,000	631,800			11,000,000	15,654,220	240,885,071
7,320,000	283,793			11,800,000	14,899,520	238,895,509
				12,600,000	14,079,520	218,258,849
				13,500,000	13,187,445	206,279,153
				14,500,000	12,214,670	203,149,258
				15,600,000	11,153,395	198,627,252
				16,800,000	9,993,570	184,697,491
				18,000,000	8,731,170	142,111,878
				19,300,000	7,370,620	99,685,525
				20,800,000	5,905,095	86,439,910
				22,500,000	4,316,570	86,710,320
				24,100,000	2,652,370	61,755,533
				26,130,000	907,535	59,241,642
						22,822,000
						22,790,750
						23,632,000
						23,345,500
						23,455,250
						23,440,500
						23,780,500
						23,954,500
$ 97,840,000	$ 25,277,960	$ 10,000,000	$ 6,750,000	$ 285,430,000	$ 273,820,849	$ 4,327,966,360

TABLE 23
PERMANENT UNIVERSITY FUND BOND
DEBT SERVICE REQUIREMENTS

Fiscal Year	A & M System		UT System		Total Permanent University Fund Bonds
	Principal	Interest	Principal	Interest	
1989	$ 1,130,000	$ 17,594,486	$ 14,895,000	$ 36,175,460	$ 69,794,946
1990	2,365,000	17,253,602	13,420,000	35,069,495	68,108,097
1991	3,015,000	17,106,459	14,920,000	34,047,595	69,089,054
1992	28,725,000	16,907,959	15,475,000	32,961,935	94,069,894
1993	4,490,000	14,577,394	17,095,000	31,722,835	67,885,229
1994	5,820,000	14,257,824	17,775,000	30,457,973	68,310,797
1995	6,720,000	13,836,296	18,520,000	29,181,748	68,258,044
1996	7,700,000	13,333,976	19,330,000	27,814,888	68,178,864
1997	8,770,000	12,743,411	20,720,000	26,357,828	68,591,239
1998	10,800,000	12,060,056	21,715,000	24,761,848	69,336,904
1999	11,875,000	11,213,411	22,815,000	23,053,965	68,957,376
2000	13,055,000	10,266,316	24,015,000	21,213,560	68,549,876
2001	14,345,000	9,208,271	32,815,000	19,253,240	75,621,511
2002	15,755,000	8,029,946	33,395,000	16,564,705	73,744,651
2003	16,705,000	6,710,628	36,325,000	13,592,550	73,333,178
2004	18,170,000	5,512,628	44,925,000	10,323,300	78,930,928
2005	19,740,000	4,215,950	48,945,000	6,280,050	79,181,000
2006	10,775,000	2,800,000		1,875,000	15,450,000
2007	11,640,000	1,938,000		1,875,000	15,453,000
2008	12,585,000	1,006,800		1,875,000	15,466,800
2009 and beyond			25,000,000	13,125,000	38,125,000
	$ 224,180,000	$ 210,573,413	$ 442,100,000	$ 437,582,975	$ 1,314,436,388

College Student Loan Bonds are sold to raise funds for loans to eligible Texas college students. This bond category had $97.8 million outstanding at the close of fiscal 1988.

Farm and Ranch Security Bonds totaled $10 million in fiscal 1988. Proceeds from these bonds guarantee loans for farm and ranch land, mortgages and deeds of trust. They also advance to borrowers a percentage of the principal and interest due on farm and ranch loans.

The state also issued Texas Public Finance Authority General Obligation Bonds in fiscal 1988 — to the tune of $285.4 million. These bonds are sold to finance the acquisition, construction or equipping of new state facilities, or major repair of existing facilities.

Texas has authorized the sale of Supercollider Bonds to finance eligible projects necessary or incidental to the proposed superconducting supercollider high-energy research facility. None of those bonds have been issued.

In programs that involve loans, repayment of those loans goes toward retiring the bonds with interest. In programs involving land sales, proceeds from those sales retire the bonded indebtedness.

If revenue from the various bond programs doesn't cover principal and interest payments, the Constitution provides for the appropriation of the amount needed to meet the outstanding debt requirement. Appropriations for this purpose would be made from nondedicated state revenue.

The Constitution limits the amount of bonds that can be issued in any of the general obligation categories. As of August 31, 1988, the following bonds had been authorized but not issued:

Veterans Land Bonds	$ 200,000,000
Veteran Housing Bonds	250,000,000
Farm and Ranch Loan Bonds	500,000,000
Water Development Bonds	1,150,670,000
College Student Loan Bonds	79,500,000
Park Development Bonds	29,250,000
Farm and Ranch Loan Security Bonds	0
Texas Public Finance Authority	214,570,000
Supercollider Bonds	500,000,000
TOTAL	$2,923,990,000

Permanent University Fund Bonds

Permanent University Fund (PUF) Bonds are sold to build, equip or buy buildings or to finance other permanent improvements for the University of Texas and Texas A&M University systems.

Debt service payments on these bonds are made from income on the Permanent University Fund. Permanent University Fund debt may not total more than 30 percent of the value of the Permanent University Fund — excluding real estate.

Higher Education Constitutional Bonds

Higher Education Constitutional Bonds are sold for purposes similar to PUF Bonds. They are used to build, equip or buy buildings or to finance other improvements to public universities outside the University of Texas and Texas A&M systems.

The Texas Constitution provides for the appropriation of $100 million of the first money coming into the State Treasury not otherwise appropriated for the purpose of acquiring land, constructing and equipping buildings, major building repairs and rehabilitation, and acquiring capital equipment. Only 50 percent of this money may be pledged for debt service.

TABLE 24
HIGHER EDUCATION CONSTITUTIONAL BOND DEBT SERVICE REQUIREMENTS

Fiscal Year	Principal	Interest	Total Higher Education Constitutional Bonds
1989	$ 23,440,000	$ 12,939,660	$ 36,379,660
1990	25,065,000	11,339,860	36,404,860
1991	26,835,000	9,605,959	36,440,959
1992	28,290,000	7,740,414	36,030,414
1993	29,590,000	5,755,535	35,345,535
1994	31,740,000	3,630,467	35,370,467
1995	34,160,000	1,202,029	35,362,029
TOTAL	$ 199,120,000	$ 52,213,924	$ 251,333,924

TABLE 25
SECURITIES DEPOSITED IN TRUST

Trust Account	Balance 9/1/87	Increase/ Decrease	Balance 8/31/88
DEPOSITORY ACCOUNTS			
910 Time Depository Bonds Guaranty Account	$ 1,106,905,000	$-253,105,000	$ 853,800,000
912 Higher Education Depository Guaranty Trust Account	49,996,000	-3,834,000	46,162,000
915 Agencies and Boards Depository Guaranty Trust Account	250,000	100,000	350,000
925 Texas Employment Commission Depository Bonds Guaranty Account	61,920,000	-3,300,000	58,620,000
TAX BOND ACCOUNTS			
904 Motor Fuels Distributors Bond Guaranty Account	31,000	-1,000	30,000
905 Foreign Corporation Franchise Guaranty Account	13,558	0	13,558
956 Cigar and Tobacco Products Bond Account	193,971	-97,000	96,971
962 Sales Tax Guaranty Account	8,244	-3,000	5,244
PUBLIC PROTECTION ACCOUNTS			
476 Radiation and Perpetual Care Fund	136,467,447	-31,916,369	104,551,078
908 Bond and Investment Companies Account	215,000	0	215,000
916 Building and Loan Associations Companies Account	100,000	0	100,000
921 Life, Health, Accident and Casualty Insurance Companies Account	255,158,892	13,895,166	269,054,058
940 Motor Vehicle Proof of Responsibility Account	272,000	120,000	392,000
949 Automobile Service Club Account	125,000	75,000	200,000
991 Texas Deferred Compensation Guaranty Account	3,435,000	2,725,000	6,160,000
ESCHEAT ACCOUNTS			
551 Unclaimed Money Fund	442,608	2,236,033	2,678,641
TOTAL SECURITIES	$ 1,615,533,720	$-273,105,170	$ 1,342,428,550

Securities Deposited in Trust

(Table 25)

Texas had $1.3 billion worth of securities held in trust on August 31, 1988. There are several types of trust accounts held by the State Treasurer.

Depository Accounts hold securities used as collateral by the State Treasurer against state money deposited in state-approved depository banks. The State Depository Board approves securities in the Depository Accounts. Board members are the State Treasurer, the Comptroller of Public Accounts, the State Banking Commissioner and a citizen appointed by the Governor.

The balances of Depository Accounts, plus the amount of FDIC coverage on treasury deposits, meet the 100 percent collateral requirement for treasury deposits.

Tax Bond Accounts hold securities deposited by taxpayers to insure payment of taxes. The balance in these accounts is only a portion of the total amount pledged against tax payments, since other securities, such as cash and letters of credit, are acceptable as tax bonds.

Public Protection Accounts hold securities pledged as bonds against possible loss or damage caused by one of the bonded parties.

Escheat Accounts represent securities held in trust for unidentified heirs and beneficiaries of estates. In most cases, money in these accounts will revert to the state if not claimed within seven years.

Foundation School Program

(Table 26)

The Foundation School Program finances public education in Texas and determines the amount of funding available for other state programs.

The Foundation School Program has the first claim against the first monies coming into the State Treasury not otherwise appropriated. The state's share of public education financing (and local school districts' minimum contributions) is determined by statutory formulas. The money left over after public schools are funded is the amount available for other state programs.

The Foundation School Fund Budget Committee certifies a biennial estimate of the Foundation School Program's funding needs before every regular legislative session. The Governor, the Lieutenant Governor and the Comptroller of Public Accounts sit on the budget committee. The committee meets periodically to modify or revise estimates if there are legislative or administrative changes affecting costs.

Two major state funds support the Foundation School Program.

The Foundation School Fund 193 provides the bulk of state funding for Texas public schools. The General Revenue Fund is the principal source of income for the Foundation School Fund. School districts get Foundation School Fund money based on each local district's property wealth and ability to finance education locally.

The Available School Fund 002 receives investment income from the Permanent School Fund 044 and a portion of motor fuels taxes from the General Revenue Fund. Money from the Available School Fund is allocated based on the number of students attending school in a district.

Table 26 shows what the Foundation School Fund Budget Committee estimated fiscal 1988 costs would be as of October 1987. Actual outlays from the Available School Fund and Foundation School Fund also are shown for fiscal 1988.

TABLE 26
FOUNDATION SCHOOL PROGRAM
BUDGET ESTIMATE AND STATE EXPENDITURES
Year Ended August 31, 1988

Program	October 1987 Cost Estimate
Basic	$ 4,531,495,078
Special Education	509,399,756
Education Improvement	428,530,060
Compensatory Education	351,957,485
Vocational Education	246,797,237
Transportation	197,233,142
Bilingual Education	35,347,316
Gifted & Talented	7,687,675
Total Foundation School Program cost, estimated	6,308,447,749
Less: Total Local Fund, estimated	1,978,094,917
STATE SHARE FOUNDATION SCHOOL PROGRAM	4,330,352,832
Non-Foundation School Program Costs	
Enrichment Equalization Aid	532,460,476
Experienced Teacher Allotment, estimated	37,599,433
Pre-Kindergarten for the Disadvantaged	42,990,213
LEP Summer School Program	6,097,700
Statewide Program for Visually Handicapped	6,884,819
Regional Day School for the Deaf	29,600,690
Regional Media Center, estimated	2,991,457
Computer Services, estimated	2,991,457
Education Service Center	8,316,250
Incentive Aid, estimated	2,500,000
Community Education	500,000
Sick Leave	5,250,000
Payments to State Schools	1,091,800
Total Non-Foundation School Program Costs	679,274,295
Prior Year Adjustments	-3,000,000
Balance to be Paid from State Fund	$ 5,006,627,127
STATE EXPENDITURES	
Available School Fund	769,466,000
Foundation School Fund	4,237,161,127
TOTAL STATE EXPENDITURES 1988 FOUNDATION SCHOOL PROGRAM	$ 5,006,627,127

Notes To The Annual Financial Report

NOTE 1 — Annual Financial Report Presentation

The Annual Cash Basis Financial Report for the state includes all funds in the State Treasury and has been prepared primarily from accounts maintained by the State Comptroller. Additional data have been derived from reports prescribed by the Comptroller and prepared by various agencies of the state.

NOTE 2 — Summary of Significant Accounting Policies

a. Basis of Accounting

The funds of the State Treasury are accounted for on a cash basis as required by the Texas Constitution and by law. Revenue is reported in the period when the related cash collection is made, and expenses are reported in the period when the disbursements are made.

b. Pooled Cash and Cash Equivalents

Amounts reflected in this report as cash in the State Treasury are pooled and reinvested by the Treasury in various financial instruments. The depository interest on the cash pool is credited proportionally to each fund eligible to receive the interest. Depository interest earnings are transferred to each fund on a periodic basis. The following is a reconciliation of total cash in the State Treasury Account per this report to the actual balance of the pool of cash reinvested by the State Treasury.

Cash in State Treasury (Comptroller Records)	$ 2,731,690,709
Less: Balance of Fund 938 (In Federal Treasury)	230,774,059
Other Items in Transit	6,244,485
Plus: Outstanding Warrants	617,048,935
Pooled Cash and Cash Equivalents (State Treasurer Records)	$ 3,111,721,100

The following is a breakdown of the pooled cash and cash equivalent investments in financial institutions by type of instrument.

Time Deposit	$ 646,814,430
Non-interest-bearing demand accounts and NOW Accounts	62,715,255
Securities Repurchase Agreements	976,855,070
U.S. Treasury bills at amortized cost	1,391,867,151
Accrued interest	31,619,607
Cashier's Cash (cash and checks in transit)	849,587
Investment in Texas State Trust Company	1,000,000
Total Pooled Cash and Cash Equivalents	$ 3,111,721,100

c. Interfund Borrowing

The Comptroller is authorized by law, with the approval of the State Treasurer, to borrow money from statutory funds to cover General Revenue Fund shortfalls.

These transfers to the General Revenue Fund are temporary and are returned to the lending fund as soon as practicable. The Comptroller preserves the fund equity and the State Treasurer allocates the depository interest as if the transfers had not been made.

On August 31, 1988, all short-term borrowings of the General Revenue Fund had been returned to the lending statutory funds, and no liability existed.

d. Investments

Various agencies of the state are authorized by law to invest and reinvest the balances of certain funds in the State Treasury. Unlike the cash pool investments of the State Treasury in Note 2b, these agency investments are purchased directly from individual fund resources and thus reduce the cash balance of the related funds. The investments are maintained as an asset of the fund from which they are purchased. The State Treasury is the custodian of the investment paper.

Investments are recorded at par. Discounts and premiums are recorded in separate contra accounts which are amortized over the life of the investment.

e. Bonded Indebtedness

Outstanding bonded indebtedness is maintained as a long-term liability account in the statewide accounting system. This includes the constitutionally authorized general obligation bonds — which are accounted for in special funds in the State Treasury — higher education constitutional appropriation bonds and Permanent University Fund bonds. These bonds are recorded at par and are reduced by the amount of each payment of principal.

All bond funds were self-sufficient for debt service requirements during the fiscal year reporting period.

NOTE 3 - Pension Plan

The state has three separately defined pension plans which cover substantially all of its employees. They are the Employees Retirement System, which includes the Law Enforcement and Custodial Officers Retirement System, the Teacher Retirement System and the Judicial Retirement System.

The Employees Retirement System and the Teacher Retirement System are maintained on an actuarially sound basis. The Judicial Retirement System is maintained on a pay-as-you-go basis. However, the 69th Legislature restructured the Judicial Retirement System into two plans effective September 1, 1985. These are referred to as JRS Plan 1 and JRS Plan 2.

JRS Plan 1 continues to operate on a pay-as-you-go basis for judges who became members prior to September 1, 1985. Based on a 7.5 percent assumed investment rate, the unfunded actuarial liability of JRS Plan 1 on August 31, 1985, was estimated to be $220.6 million.

JRS Plan 2 operates on an advance funding basis and is applicable to judges who become members after September 1, 1985. The state contribution for JRS Plan 2 will be actuarially determined so that it will finance the plan's normal cost. It is estimated that the normal cost contribution rate for JRS Plan 2 will be 17 percent of payroll, six percent by each judge and 11 percent by the state. The cost of financing JRS Plan 2 for the 1990-91 biennium will be 14.6 percent of the Plan 2 projected payroll.

The unfunded actuarial liability for the state's retirement programs on August 31, 1988 is as follows:

Retirement System	Overfunded/ (Unfunded) Actuarial Liability	Date of Last Actuarial Valuation	Number of Years to Fund Liability
Employees Retirement			
Regular Employees	$ (105,019,907)	8/31/87	0
Law Enforcement and			
Custodial Officers	(10,514,099)	8/31/87	0
Teacher Retirement	4,096,387,942	8/31/87	19.7*
Judicial Retirement System 2	47,830		
TOTAL	$3,980,901,766		

*Due to market conditions, the funding period was increased to 24.3 years on January 1, 1988.

The above information was obtained from actuarial valuation reports and other correspondence provided by the responsible state agencies.